

VZCZCXYZ0001  
OO RUEHWEB

DE RUEHJM #4630/01 3001510  
ZNY CCCCC ZZH  
O 271510Z OCT 06  
FM AMCONSUL JERUSALEM  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5557  
INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L JERUSALEM 004630

SIPDIS

SIPDIS

NEA FOR FRONT OFFICE; NEA/IPA FOR  
WILLIAMS/SHAMPAINE/STEINGER; NSC FOR ABRAMS/DORAN/WATERS;  
TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

E.O. 12958: DECL: 10/27/2016  
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [KWBG](#) [IS](#)  
SUBJECT: ECONOMIC FREEFALL DAMAGING GAZA INDUSTRY; BANKING  
SECTOR STRUGGLING

REF: JERUSALEM 4587

Classified By: Acting Principal Officer Thomas Duffy, Reasons 1.4 (b) a  
nd (d).

¶1. (SBU) Summary: Severely restricted throughput at  
Karni/al-Mintar crossing, non-payment of PA salaries, and IDF  
incursions continue to seriously undermine Gaza's economy,  
particularly its industrial base. With arrears mounting and  
almost no new lending, banks operating in Gaza are under  
increased pressure. The Bank of Palestine has started  
calling in PA loans and provisioning the unpaid loans of PA  
employees. End Summary.

-----  
Industry Fleeing  
-----

¶2. (C) In an October 16 Econoffs/USAIDoff meeting with  
Hebron businessmen (reftel), Hani Shawa, Chairman of the  
Gaza-based Bank of Palestine Ltd., commented on the dire  
state of the Gaza economy and the impact on banks operating  
there. He asserted that one half of the Gazan business  
community's wealth was tied up in goods waiting to enter Gaza  
through the Kanri/al-Mintar crossing. Restrictions on the  
flow of goods in both directions, he continued, is leading to  
the irreparable collapse of Gaza's industrial base. Shawa  
stated that a biscuit factory that had once sold 60 percent  
of its production to the West Bank had not sent a shipment  
there in almost two years. Nafez Hirbawi, Chairman/General  
Manager of Hebron-based Paper Industries Company, Ltd.,  
interjected that the biscuit company is actually planning to  
close and move abroad. Shawa reacted by expressing his  
concern over unpaid loans his bank had previously extended to  
the company. He added that many Palestinian companies in  
Gaza had closed or moved abroad, particularly furniture  
manufacturers long-prevented from exporting their products.

-----  
Agriculture Sector Failing  
-----

¶3. (C) Shawa said that agricultural activity had declined  
significantly. The inability to export most of last season's  
harvest due to prolonged Karni/al-Mintar crossing closures  
has discouraged many farmers from planting this year. In  
addition, IDF incursions since June 25 have damaged  
agricultural areas. Shawa described cultivated land in Beit  
Lahiya as "a battle ground for Israeli tanks." Although

production is expected to decline, fresh produce prices will continue to be low due to the limited flow of exports allowed through Karni/al-Mintar. According to Hirbawi, one 15-kilogram box of tomatoes currently sells for NIS 2 in Gaza, but would normally bring NIS 20-25 per box.

-----  
Pressure on Banks Rising  
-----

¶4. (C) Shawa described the state of the banking sector in Gaza as "catastrophic" given the loss of the industrial base. According to Shawa, with the exception of a few loans to large businesses, banks operating in Gaza have stopped lending and issuing letters of credit since many private sector customers can no longer afford these services. He said personal loans are "out of the question." The Bank of Palestine is calling in two PA loans totaling NIS 120 million -- a NIS 20 million loan from their Ramallah branch and a NIS 100 million loan from their Gaza headquarters -- due to expire in October. Payments from PA domestic revenues have reduced the amount due on the loans to NIS 80 million total. The Bank of Palestine recently provisioned USD 3.5 million in PA employee loans that had not been serviced for six months. Shawa estimated that total PA employee debt to the bank stood at USD 130 million. Starting September 1, the bank began deducting 20 percent from any allowance payments to any PA employee with outstanding loan payments.

¶5. (C) Shawa stated that Israeli banks, which earlier this year had threatened to sever ties with Palestinian banks, have agreed to continue providing check clearing and other services until the end of the year. He said that he believes a permanent solution may involve greater scrutiny of transactions valued at NIS 5,000 or more. Shawa said that in

September 2006, the Bank of Palestine installed a "Safe Watch" software filter containing the OFAC list and produced by a Belgium company. (Note: The bank notified the Ministry of Finance in April 2006 that it could not open a Single Treasury Account for the PA. End Note.)

DUFFY